



Country Questions and Answers

The following Q&As are designed to provide further guidance to countries as they develop proposals for MCC funding. These questions are derived from the questions MCC teams received when traveling to the 16 eligible countries in May and June 2004.

What is the function of a Compact?

A Compact is an agreement between MCC and a country that states the objectives of a country's MCC program, a basic plan for implementing and monitoring that program, the funding that will be provided by MCC and the country in support of the program, and other responsibilities of MCC and the country. A Compact may be supplemented by specific agreements or additional details regarding program implementation, monitoring, and evaluation. Additional requirements for Compacts are set forth in Section 609 of the Millennium Challenge Act of 2003, MCC's authorizing legislation.

How will funds actually flow from the Compact?

MCC has the authority, and intends when appropriate, to fund fully multi-year agreements with the recipient country at the beginning of the Compact. MCC funds will be disbursed periodically over the term of the Compact, based on performance and need to the administrative entity accountable for MCC program funds. In many cases, the entity may be one other than the government, as further discussed below in the question on accountability for funds.

What is the difference between a country's proposal and a Compact that is entered into between MCC and a country?

Each eligible country has been invited to submit a proposal for MCC funding, the key elements of which are described in "Guidance for Developing Proposals for MCA Assistance in FY 2004" published by MCC on April 30. Briefly, a proposal should discuss: (a) the priorities for poverty reduction through sustainable economic growth, (b) how these priorities were determined, (c) the plan for addressing these priorities and how this plan fits in with other donor programs, (d) the impact of these measures on poverty reduction, (e) how progress in tackling obstacles to growth and poverty reduction will be quantitatively measured, and (f) a plan for continued policy reform. A proposal should also include a detailed description of the consultative process that was used in the process of developing the proposal.

After discussion and negotiation, MCC and a country may enter into a Compact.

When should a country begin discussions with MCC?

The country is encouraged to engage in discussions to clarify any issues related to the MCC process and elements of a proposal for MCC assistance at the earliest possible time.

MCC envisions the development of a Compact as an iterative process in which MCC and a country are mutually engaged in the development of an effective program for the country, the key elements of which were outlined in the “Guidance for Developing Proposals for MCA Assistance in FY 2004”. Countries are encouraged to discuss proposal ideas with MCC even before a formal proposal is submitted. Discussion at this early stage could help ensure that further efforts to develop the proposal are channeled in a direction that both partners agree is promising.

How many times can a proposal be submitted?

No country will be rejected on the basis of a single, or even a series, of submissions, if the country is clearly committed to improving their proposed program and working in good faith towards the negotiation and completion of a mutually agreeable Compact with MCC. MCC understands that some countries will require more time than others to complete their proposal development process.

How will discussions between a country and MCC take place?

MCC has requested that each country name a point of contact; likewise, MCC has named a point of contact for the country. MCC and country points of contact will manage communications between the country and MCC personnel.

How much consultation is required?

MCC has not set a quantitative measure or specific methodology for the amount or type of consultation that a country must engage in during the proposal development process. MCC’s authorizing legislation requires that governments of eligible countries take into account the local level perspectives of, among others, rural and urban poor, including women, and consult with private and voluntary organizations, the business community and other donors. MCC recommends a broad-based consultative process including these and other groups throughout all regions in a country. MCC is not looking for unanimity and recognizes that true “consensus” may not always be possible. We do expect, however, that the consultations will have been meaningful and not merely a formality, and that there will be broad agreement that the proposal reflects one or more important priorities for the country.

Are countries allowed to engage USAID, State, and other U.S. Government agencies in the development of proposals? Is new technical assistance available from the U.S. Government to assist in determining broader Compact purposes and objectives?

MCC believes that eligible countries should own and manage the identification of their priorities for sustainable growth and poverty reduction as well as the process of proposal development. In addition, the proposal should be informed by the views of a broad range of society. In order to allow the eligible country to determine its own priorities, other U.S. Government entities have been asked not to take positions on, or offer encouragement with respect to, any priorities or specific aspects of country proposals. (MCC will, however, solicit the views of U.S. Government entities with respect to proposals and many other country-specific issues.)

Technical assistance from the U.S. Government for priority identification or proposal development in the early stages could interfere with country ownership and will generally be discouraged. However, MCC will not object if countries choose to engage other entities using funds from non-U.S. Government sources to provide technical assistance.

If there are U.S. Government-financed programs/projects already operating in eligible countries whose pre-existing terms of reference include providing guidance and advice to governments on developing priorities and evaluating investment options, please consult with MCC and the project managers to determine options for how to continue the engagement.

Whom may a country engage in the development of an MCC proposal? Local consultants? Foreign consultants? Local NGOs? Foreign NGOs? Foreign donors such as UNDP, other bilaterals or multilaterals? Does it make a difference whether assistance is paid for (by the country or by a third-party) or is pro bono?

MCC encourages a country to look to its own citizens and resources in the development of a proposal in order to maximize the opportunity for country ownership of the proposal and to support the development of “soft infrastructure” (professional and analytical skills) in the countries. However, MCC does not prohibit the engagement of contractors or differentiate between whether this assistance is funded by Official Development Assistance, specifically paid for by the country, or provided pro bono. However, the use of such resources should be disclosed to MCC.

Ultimately, the government must clearly and unambiguously own the proposal, which should have been developed after meaningful consultation with a broad range of society. A proposal that does not reflect such country ownership will not be seriously considered for MCC funding.

Is technical assistance available from the U.S. Government to assist in finalizing the Compact? If so, when?

During the discussion of the country’s proposal for MCC funding, technical assistance may be warranted to assess the feasibility or cost of specific activities proposed to achieve program objectives, particularly if the country can demonstrate that these services are not available through other means. In addition, assistance could address the economic reasoning of the proposal, financial and fiscal management, engineering feasibility, cost estimation, monitoring & evaluation, or implementation planning and management. These decisions will be made by MCC on a case-by-case basis in consultation with the country.

What sort of monitoring and evaluation framework should be included in a Compact?

The monitoring and evaluation plan that must ultimately be included in each Compact approved for MCC funding should establish a framework for measuring the success of the country's program in increasing economic growth and reducing poverty.

The monitoring and evaluation plan should define the overarching goal of the country's program as well as the intermediate objectives necessary to achieve this goal. The plan should also include baseline data and performance targets against which progress can be measured. During execution, these measures will help program managers assess the performance of individual program elements and make changes as needed. These measures will also allow outside parties to participate in performance monitoring.

The plan should also articulate a process for rigorous impact assessment, focusing on methodology and any surveys to be performed or data collected. Impact assessments or formal evaluations of MCC program activities could take different forms depending on the individual programs proposed. Evaluations could consider questions such as why a program succeeded or failed at meeting targets or whether or not the program was the most cost-effective way of achieving the result.

Where appropriate, MCC or the country may wish to incorporate experimental design or randomized trials in order to understand better the impact of particular activities. Establishing clear measures, targets, and baselines for monitoring performance should provide important information for conducting formal evaluations and impact assessments.

What standards will countries be asked to meet regarding accountability for funds and procurement integrity?

Each Compact will contain a fiscal accountability plan outlining the type of entity, institution or organization that will administer MCC program funds, including specifics on accounting and disbursement as well as details on procurement management.

The management of MCC funds must meet legal and fiduciary requirements expected of entities using appropriated U.S. taxpayer dollars. MCC will perform due diligence by reviewing the country's proposed fiscal accountability plan and assessing the capacity of the relevant entities, institutions or organizations.

A number of mechanisms could be utilized. Illustrative examples might be the use of financial or accounting institutions, existing government management systems, establishing separate financial management units and accounts within government to manage Compact funds, or establishing a trust managed by an independent party to oversee and account for MCC disbursements.

In assessing the proposed entities, institutions or organizations, MCC will specifically examine areas such as:

- Funds control and documentation
- Separation of duties and internal controls
- Consistent accounting methodologies, standards and systems
- Ability to generate timely and meaningful reports
- The practice of making all financial information publicly available in a timely and meaningful fashion

Cash management practices
Timely payment to vendors
Procurement and contracting practices, including making all procurement actions publicly available
Audit plan proposed

Why should countries identify intended beneficiaries in their proposal?

Proposals for MCC assistance should identify goals that will lead to economic growth and poverty reduction for a broad range of its citizens. Countries should identify how they intend to address these goals in their programs, including the intended beneficiaries, disaggregated, where possible, by income level, gender and age. To do so, countries will need to analyze how the proposed program will affect key population groups they are intending to impact. In its evaluation of a country's proposal, MCC will consider whether the proposed program is designed to reach the intended beneficiaries.

What are the expectations regarding counterpart contributions under Compacts?

At this stage there are no specific requirements or expectations regarding counterpart contributions from countries, though we recognize that counterpart financing can be an important indication of country ownership and, as such, will be encouraged.

Beginning in 2006, MCC legislation indicates that eligible lower middle-income countries will be expected to make contributions relative to their national budget, taking into account the prevailing economic conditions.

Are all eligible countries guaranteed funding?

No. In order to receive funding, an eligible country must eventually come to agreement with MCC on a Compact that aims to reduce poverty through economic growth. If the country and MCC cannot reach agreement on a Compact, then the country will not receive funding.

Has MCC allocated specific funding quotas for eligible countries?

MCC has no funding quota system. While MCC will take into account the size of a country's economy and its population as well as other donor funds, allocation decisions will be made on a case-by-case basis depending on the scope and estimated cost of an agreed upon MCC program in the country. The quality of the documentation supporting a country's own cost estimates will likely influence MCC's own evaluation of the country's proposal and may determine how quickly substantive due diligence and Compact negotiations can commence.

What role will the MCC eligibility criteria continue to play?

Eligible countries must continue to maintain or improve their performance in the policy areas (ruling justly, investing in people, and encouraging economic freedom) measured by the sixteen MCC indicators. While MCC will of course examine the reasons for any difficulties that countries face, significant slippage on any of the indicators may result in the termination of funding. The Compact between MCC and a country will reflect this requirement.

Why would funding to a country with a Compact agreement be terminated?

After a Compact is agreed, funding could be suspended or terminated for a country or a particular entity that has failed to adhere to its responsibilities under the Compact. The reasons for suspension or termination of all or part of a Compact's funding may include, but are not limited to: failure to meet performance targets as agreed to in the Compact or significant slippage or a pattern of actions inconsistent with the MCC indicators used to determine eligibility of the country.